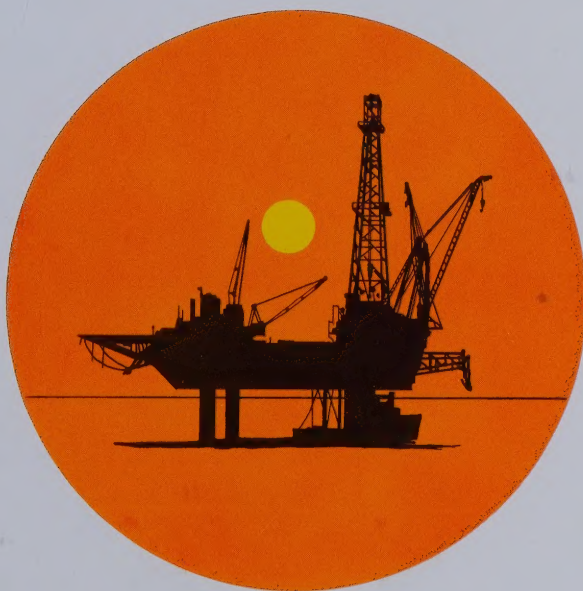
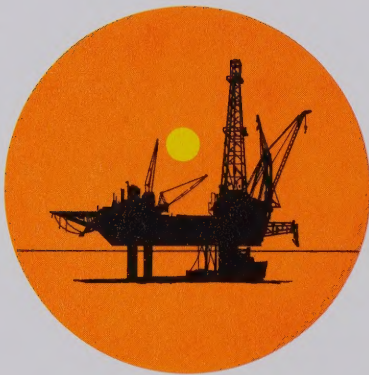


AR26

*Lauco's*



1974 annual report  
on the  
financial  
and  
exploration  
activities  
of  
sunlite  
oil  
company  
limited



**sunlite  
oil  
company  
limited**

#### **DIRECTORS**

PETER M. CLARKE,  
Calgary, Alberta  
J. STEWART FISHER,  
Calgary, Alberta  
GAINES L. GODFREY,  
Amarillo, Texas  
DONALD E. HOCKADAY, Jr.,  
Houston, Texas  
EDWIN C. JAMES,  
Houston, Texas

#### **OFFICERS**

EDWIN C. JAMES,  
President  
DONALD E. HOCKADAY, Jr.,  
Executive Vice President  
J. STEWART FISHER,  
Secretary  
BARRY W. SWAN,  
Treasurer

#### **HEAD OFFICE**

1120, 540 - 5th AVENUE S.W.  
Calgary, Alberta

#### **BRANCH OFFICE**

2500 ONE ALLEN CENTER  
Houston, Texas

#### **SUBSIDIARY COMPANIES**

SUNLITE INTERNATIONAL INC.  
SUNLITE OIL COMPANY (U.K.) LIMITED

#### **BANKERS**

CANADIAN IMPERIAL BANK OF COMMERCE  
Calgary, Alberta  
CONTINENTAL ILLINOIS NATIONAL BANK  
Chicago, Illinois  
CAPITAL NATIONAL BANK  
Houston, Texas

#### **AUDITORS**

THORNE, RIDDELL & CO.  
Calgary, Alberta

#### **SOLICITORS**

MacKIMMIE MATTHEWS  
Calgary, Alberta  
KRIST AND McCONNICO  
Houston, Texas

#### **TRANSFER AGENT**

THE CANADA TRUST COMPANY  
Calgary, Alberta  
FIRST NATIONAL CITY BANK  
New York, New York



AR26

SUNLITE OIL COMPANY LIMITED  
940 540 - 5th Avenue S.W.  
Calgary, Alberta T2P 0M2



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THE GLOBE AND MAIL  
140 KING ST W  
TORONTO ONT

INTERIM REPORT

# **sunlite oil company limited**

## **1974**

### **INTERIM REPORT TO SHAREHOLDERS**

For Six Months  
Ended March 31, 1974



## TO OUR SHAREHOLDERS

This Interim Report to Shareholders covers the six months ending March 31, 1974.

Sunlite's earnings based on unaudited figures for the period and before certain non-cash provisions was \$649,871 or 27¢ per share.

New accounting practices have been adopted by the Canadian Securities Commissions requiring theoretical provision for income taxes, although no taxes are due or payable. After this non-cash provision (deferred income tax and extraordinary realization of tax benefit of prior period losses), net earnings are reduced to \$381,000 or 16¢ per share.

Revenues from oil and gas sales during the six months period increased five fold to \$209,626 from \$42,052, reflecting new production which was placed on stream, increased production from developed properties and income from oil and gas properties purchased during the latter part of 1973. A contribution to earnings was made by the sale of Sunlite's shallow gas properties in the Medicine Hat area for \$1,400,000 to be paid in seven equal annual installments. Sunlite's cost in the properties was \$372,500. Certain non-producing properties were sold which yielded a gain of \$135,156 and gain on marketable securities was \$136,060.

Increases in operating costs and depletion charges principally reflect greater oil and gas sales.

Drilling and exploration expenditures were \$158,000 for the past six months. These include development drilling and equipment purchases for the Hamilton Lake, Plain Lake and Doris Creek fields; the costs of five unsuccessful exploratory tests in Alberta and seismic programs in the southeastern U.S.A. and the British and Dutch sectors of the North Sea.

Property acquisitions during the period were made in North Dakota where Sunlite now has a 50% interest in leases totalling approximately 200,000 acres and in Alabama where selective lease purchases were made.

Work in progress includes expenditures which may result in acquisition of permits in a number of countries such as Norway, Ireland, the Sudan and Pakistan where negotiations are being pursued.

Working capital on March 31, 1974 was \$2-,932,223, an increase of \$1,485,413 since September 30, 1973.

We are pleased to report that on May 8, 1974, an agreement was concluded under which Mesa

Petroleum Company has subscribed to purchase 564,881 shares for \$3.9 million (U.S.) in three equal annual installments of \$1.3 million. The first purchase of stock was made at closing at a price of \$6.00 per share with the subsequent annual purchases to be made at \$7.00 per share and \$8.00 per share. Mesa further has an option for 12 months from May 8, 1974 to purchase 2,435,119 shares of Sunlite common stock at \$10.00 (U.S.) per share. Sunlite's Board of Directors has been enlarged to seven members to include three Mesa representatives. This transaction has substantially improved Sunlite's cash position and will enable us to meet our North Sea exploratory commitments.

## NORTH SEA

Exploration in the U.K. sector of the North Sea within the past six months has continued to be highly successful, with several major discoveries and extensions. The largest of the discoveries, the Ninian Field in Blocks 3/3 and 3/8 in the northern sector is estimated to have reserves of 2 billion barrels.

Drilling on Sunlite's North Sea Blocks has continued to be delayed by scarcity of rigs. The Sun-Sea Search semi-submersible rig is now scheduled to be completed in October and the first Sea Search group well is expected to begin in early 1975. Thereafter exploratory wells will be drilled on an alternate slot basis with Sun Oil Company. This rig will be used to drill Sunlite's deeper water blocks north of the 56° parallel.

In the shallower waters of the southern gas area, the operator for the Sea Search group has advised that a rig may be available to drill an exploratory test on our Block 48/12-48/13b holdings later this year. Operators for the Dutch and German holdings are negotiating for rigs to drill prospects in these areas.

Sunlite, in conjunction with other companies, has concluded an agreement under which it will earn a 7.5% interest in German block J-18 by participating in drilling an exploratory well. Seismic work indicates an attractive geological structure on this block.

## SOUTHEASTERN UNITED STATES

Recent drilling in the Florida-Alabama Smackover trend affecting our holdings has been disappointing, particularly the completion of Exxon #1 U.S. Steel Corp. and Watson #3 Inter-



national Paper Company in Baldwin County, Alabama as dry holes. After our careful assessment of available geological information, it was concluded that the company should attempt to recover its investment and maintain a position in its holdings through an overriding royalty. An agreement to this end was negotiated with Amerada-Hess early this year under which the properties were sold for \$1.4 million (U.S.) with Sunlite retaining an overriding royalty interest.

#### WESTERN CANADA

During the period under review your company participated in drilling 11 wildcat tests in southern and north Central Alberta; resulting in one gas well and ten abandonments. Six of these tests were drilled at no cost to Sunlite on lands farmed out to other companies. The gas well, located in 10-1-72-21 W4M, was drilled by General American on farmout lands in which Sunlite has a 1.5% interest. The company also had three wells drilled on our McMillan Lake acreage under terms of a farmout agreement with Ashland Oil Canada Limited. These wells were abandoned and we have subsequently selected leases out of this reservation.

Sunlite and partners also drilled one well on each of two reservations in the Buffalo (Wabasca) area of north central Alberta. Although abandoned, the information from these tests will be of great value in evaluating the potential of the heavy oil sands deposits in the area. Additional tests will be required, however, to more fully evaluate such deposits.

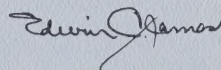
#### ARCTIC

Gulf Oil Canada Limited has abandoned its Neil 0-15 well located a few miles east of a 352,000 acre block on which Sunlite holds a 3% gross overriding royalty. This royalty was retained by your company after the sale of one-half of its Ellesmere acreage to Cities Service. Sunlite also holds a 90% working interest in a block of 331,000 acres 35 miles west of Gulf's well. No other information on Neil 0-15 has been released.

It has been announced by Dome Petroleum Limited that it is proceeding with the construction of two drill ships for use in the Beaufort Sea with drilling expected to begin in the summer of 1976. Sunlite has overriding royalty interests on 2,800,000 acres in this area.

#### EAST COAST CANADA

Sunlite has a 20% interest in 8½ million acres offshore Baffin Island on Canada's East Coast. This acreage is carried at no cost to Sunlite under terms of an agreement with another company which may earn an interest in the acreage by fulfilling all work commitments with the option of increasing its interest by drilling earning wells. To date, in excess of 6,000 miles of seismic work has been completed at a cost of \$2 million. The results of this preliminary seismic work has been encouraging in that several structures have been delineated. It has been reported that south of this area, off the east coast of Labrador, Eastcan's wildcat well, Bjarni H-81 has encountered significant oil shows.



May 15, 1974

PRESIDENT



**DIRECTORS**  
**PETER M. CLARKE.**

**SUNLITE OIL COMPANY LIMITED and**  
**SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF EARNINGS**  
**FOR THE SIX MONTHS ENDED MARCH 31, 1974**  
**(Unaudited)**

	1974	1973
<b>REVENUE</b>		
Oil and gas sales	\$ 209,626	\$ 42,052
Interest	51,619	52,149
Lease sales	—	1,982,982
Other	2,444	910
	<u>263,689</u>	<u>2,078,093</u>
<b>EXPENSE</b>		
Operating	36,496	9,291
General and administrative	215,024	186,237
Carrying charges on non-producing properties	50,682	61,780
Exploration and dry hole costs	135,075	290,638
Property surrenders and write-offs	30,634	93,049
Depletion and depreciation	58,783	5,275
	<u>526,694</u>	<u>646,270</u>
	(263,005)	1,431,823
Gain on sale of non-producing property	135,156	—
Gain on sale of natural gas property and development thereon	641,660	—
Gain on sale of marketable securities	136,060	—
<b>Earnings before deferred income taxes and extraordinary item</b>	<b>\$ 649,871</b>	<b>\$ 1,431,823</b>
Provision for deferred income taxes	379,760	667,413
<b>Earnings before extraordinary item</b>	<b>270,111</b>	<b>764,410</b>
Extraordinary item	—	—
Realization of tax benefit of prior period losses	110,889	—
<b>NET EARNINGS (Note)</b>	<b>\$ 381,000</b>	<b>\$ 764,410</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>2,379,807</b>	<b>2,357,932</b>
<b>PER SHARE:</b>		
Earnings before extraordinary items	\$ .11	\$ .32
Extraordinary realization of tax benefit of prior period losses	.05	—
<b>NET EARNINGS (Note)</b>	<b>\$ .16</b>	<b>\$ .32</b>

**SUNLITE OIL COMPANY LIMITED and**  
**SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS**  
**FOR THE SIX MONTHS ENDED MARCH 31, 1974**  
**(Unaudited)**

	1974	1973
<b>FUNDS DERIVED FROM:</b>		
Operations		
Earnings	\$ 381,000	\$ 764,410
Add (deduct) non-cash items		
Property surrenders and write-offs	30,634	93,049
Depletion and depreciation	58,783	5,275
Gain on sale of natural gas property and development thereon	(641,660)	—
Gain on sale of non-producing properties	(136,060)	—
Deferred income taxes	379,760	667,413
Realization of tax benefit of prior period losses	(110,889)	—
Other	24,413	—
	(14,019)	1,530,147
Issuance of capital stock	10,000	—
Sale of fixed assets	1,602,243	—
	<u>1,598,224</u>	<u>1,530,147</u>
<b>FUNDS APPLIED TO:</b>		
Fixed Assets		
Drilling and development	22,871	22,531
Property acquisitions	78,791	71,078
Other	49,752	88,292
	<u>151,414</u>	<u>181,901</u>
<b>INCREASE IN WORKING CAPITAL</b>	<b>1,446,810</b>	<b>1,348,246</b>
Working capital at beginning of period	1,485,413	1,829,235
<b>WORKING CAPITAL AT END OF PERIOD</b>	<b>\$2,932,223</b>	<b>\$3,177,481</b>

**NOTE**

The company has changed its accounting principles with respect to income tax allocation. Deferred income taxes arising as a result of timing differences between taxable income and reported net operating results are now being reflected in the accounts. The resultant decrease in reported earnings for the current period is \$268,871 or \$.11 per share (1973 — \$667,413 or \$.28 per share)

The change in accounting principles will result in a debit to retained earnings of \$988,935 to reflect the retroactive adjustment for deferred income taxes arising from earnings of prior periods.

## to the shareholders

We are pleased to report that income from oil and gas production increased to \$445,873 for the year and investment income was \$293,901. The financial condition of the Company remains strong with working capital of approximately \$3.5 million. Additionally, the Company will receive \$2.6 million in two annual installments due in May, 1975 and May, 1976 from a private placement of stock.

It is expected that drilling will commence on our North Sea U.K. holdings during the late spring of 1975, most probably on Block 21/7. Thereafter, the deeper water blocks will be drilled on an alternate slot basis with Sun Oil Company, the co-contractor for the Penrod 71 semi-submersible drilling rig. A well to be drilled with a jack-up rig is also planned on Block 48/12 in the southern gas area.

The Company is active in acquiring holdings in a number of other areas of the world, continuing our policy of obtaining interests in prospects with large potential which can have an important impact on the Company's earnings.

During the year two of the Company's directors, Mr. F. Leslie Croteau and Mr. Edwin L. Kennedy, resigned. Both have given generously of their time over the years and their advice and guidance has been invaluable. We greatly regret their loss. Two new Board members were appointed to represent Mesa Petroleum Co.

## financial review

Earnings for the year ended September 30, 1974 amounted to \$582,623 or \$.24 per share. Revenues from oil and gas sales increased threefold to \$445,873, reflecting new production which was placed on stream, increased production from developed properties and income from oil and gas properties purchased during the latter



part of 1973. Gains totalling \$778,186 were realized from the sale of certain of the Company's oil and gas properties: Sunlite's shallow gas property in the Medicine Hat area developed at a cost of \$372,500 was sold for \$1,400,000 to be paid in seven equal annual installments to 1980. The Company sold its undeveloped acreage in the southeastern U.S.A. realizing a modest gain and retaining a 4% overriding royalty interest.

Increases in operating costs and depletion charges principally reflect greater oil and gas sales. General and administrative costs have increased because of inflationary pressures and our increasing attention to world-wide exploration.

Drilling and development expenditures of \$200,000 reflect the Company's share of drilling twenty development oil wells and one gas well in Alberta. Dry hole costs included in the above amounting to \$91,000 resulted from three unsuccessful tests and from two exploratory wells drilled to evaluate our oil sands prospect.

Seismic programs carried out on several of our world-wide prospects cost the Company approximately \$120,000 for fiscal 1974.

The Company made property acquisitions totalling \$430,000 principally for an interest in the Huxley Gas Unit which will be on stream immediately and for exploration acreage in North Dakota, Cambodia and the southeastern United States.

Property surrenders and write-offs result from the write-down of the cost of certain royalty interests, and a small amount of working interest acreage in Canada and the U.S.A.

Other fixed asset purchases reflect the Company's share of drilling supplies being stock-piled preparatory to drilling in the British and Dutch sectors of the North Sea amounting to \$280,000

and other work in progress items, principally an Alaska coal prospect, a farm-in on German North Sea Block J-18, and new bidding groups in the British and Irish offshore areas.

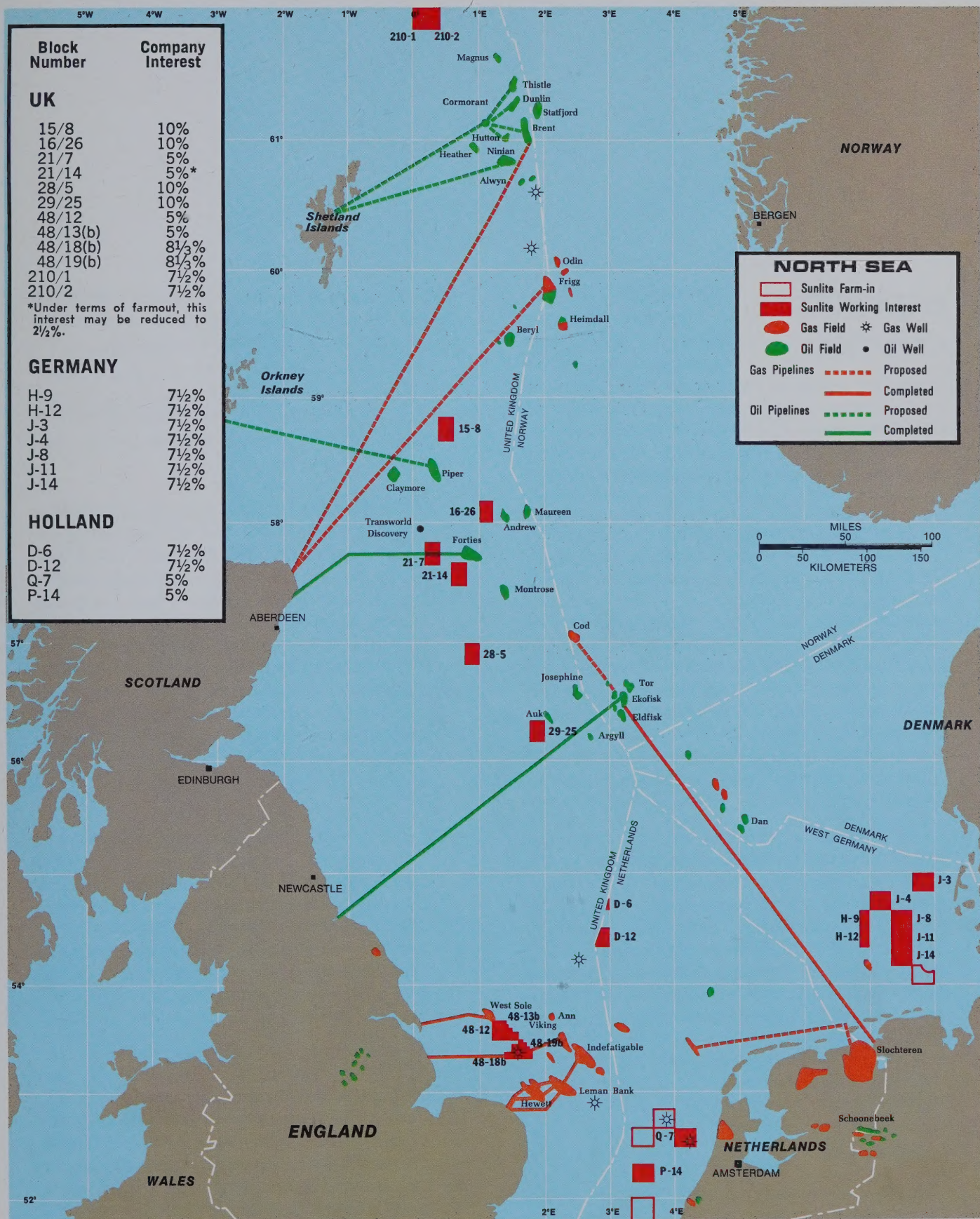
Working capital at September 30, 1974 was \$3,510,529 an increase of \$2,058,387 for the year.

As shown by the notes to the financial statements, there were obligations for work commitments and contingent liabilities totalling \$1,150,000. The amount includes bank guarantees to Federal and Provincial governments in Canada for work commitments amounting to \$240,000; drilling commitments in the British North Sea for two wells to be drilled in 1975 at a total estimated cost of \$760,000 and a contingent liability pursuant to a joint venture agreement amounting to \$150,000 which became due and payable on November 5, 1974.

We are pleased to report that on May 8, 1974, an agreement was concluded under which Mesa Petroleum Co. has subscribed to purchase 564,881 shares for \$3.9 million (U.S.) in three equal annual installments of \$1.3 million. The first purchase of stock was made at a price of \$6.00 per share with the subsequent annual purchases to be made at \$7.00 per share and \$8.00 per share. Mesa further has an option for twelve months from May 8, 1974 to purchase 2,435,119 shares of Sunlite common stock at \$10.00 (U.S.) per share.

During the latter part of the fiscal year Sunlite and United Refining Company concluded an agreement under which Sunlite will co-ordinate United's domestic and foreign exploration activities. The effort will be under the direction of Donald E. Hockaday, Jr., Executive Vice-President of Sunlite. United Refining has agreed to pay certain fees and all expenses incurred under this agreement and Sunlite has the option to participate in new exploration ventures undertaken by United Refining.







## exploration activities

### NORTH SEA

The North Sea continues to be the most successful exploratory producing region in the free world in terms of new additions to hydrocarbon reserves. Major oil fields have been discovered in Norway and the United Kingdom during 1974 with new additions to reserves estimated at approximately 5 billion barrels.

The sudden increase in oil prices has dramatically affected the economics of North Sea oil. Because of its proximity to market we believe that good quality, low sulfur oil in the North Sea will command prices of over \$12 a barrel. On the other side of the coin, exploratory and development costs have also increased substantially because of world inflationary pressures. For example, wells which we originally projected to cost 3½ million dollars are now expected to cost over 5 million dollars. During the year we have obtained additional funds to cover these increased costs.

The increase in world oil prices caused the United Kingdom to reassess its position in the oil and gas deposits and we expect that the government will elect to participate directly or indirectly in profits from North Sea production. Fortunately, they seem to be developing a policy which will permit the oil companies to realize a profit commensurate with the risks and large capital investments necessary to find and produce oil in the North Sea.

### United Kingdom

We have previously reported blocks in which Sunlite expects to participate in exploration ac-

tivity. Because of construction delays, the Penrod 71 semi-submersible drilling rig is not expected to be in the North Sea before early 1975.

Wells of interest which strongly affect the group's blocks are:

- 1) The Transworld/Texaco group completed a well in Block 21/1 in the late summer to the northwest of Sunlite's Block 21/7. This well produced from a Jurassic sandstone roughly equivalent in age to the Piper Field pay zone. While not officially made known, it is believed that the 21/1 structure may contain between ½ billion barrels and 1 billion barrels. The Sea Search group has a structure which has similar seismic characteristics on their Block 21/7 (Sunlite interest - 5%).
- 2) British Petroleum Company announced a discovery on Block 16/28 in both Tertiary and Jurassic sands. We believe that this discovery enhances our prospects on Block 16/26 (Sunlite interest - 10%). Again, reserves have not been officially announced but we believe the structure may be in the ½ billion barrel reserve class.

The late arrival in North Sea waters of the Penrod 71 rig will cause a delay in the Sea Search group's drilling program. However, during 1975 the group plans to drill one well, probably on Block 21/7, and should have sufficient time to spud a second test prior to year end. It is expected that the group will also drill a well in the shallower waters of the southern gas area on Block 48/12 using a jack-up rig.



## **Germany**

In the German sector of the North Sea, Sunlite joined a group of other companies in acquiring a farmout on Block J-18. The group will earn a 50% interest for drilling this well and Sunlite will pay 15% of the well cost to earn a net 7½% interest.

As has been previously reported, Sunlite also participates with the Kewanee/Neeg group in seven additional German North Sea blocks and is committed to drill three exploratory wells. The group operator, Kewanee Oil Company, has taken a long term lease on the Penrod 65 drilling rig which is scheduled for delivery in the fall of 1975. While we had planned to drill one well in Germany in 1974 this has not been possible because of the extreme shortage of equipment. The German government has extended our permits to comply with equipment availability and we now expect the first wells to be drilled in 1976.

## **Holland**

Technical work has defined several prospects on Sunlite's holdings in the Dutch sector of the North Sea. It had been expected that the first of these would be started in 1975, but because of the unavailability of equipment, drilling will be delayed until 1976.

Under terms of the agreement with Mobil Oil Company to farmout Blocks P/6, P/8 and S/2 (Sunlite earned interest - 5%), the Company has an obligation to commence a well prior to November 15, 1974 on Block S/2 and no later than November 15, 1975 on Block P/8. An extension is currently being negotiated.

## **UNITED STATES**

### **Beluga Lake Coal Prospect Cook Inlet, Alaska**

During the latter part of 1974 the Company purchased a 40% interest in Alaska State coal permits totalling approximately 45,000 acres in the Beluga Lake region, adjoining Cook Inlet in Alaska. Additionally, Sunlite and co-venturers acquired options on permits in the area totalling approximately 75,000 acres.

Subsequently, the Sunlite group executed an agreement with a major oil company to explore the holdings. On or before December 31, 1976 the oil company has an option to acquire a minimum of 25,000 acres of permits at \$50 per acre. An overriding royalty of 1% (with a minimum of 5¢/ton) will be retained by Sunlite and co-venturers on acreage selected. Overriding royalties will also be due Sunlite on acreage acquired within an area of interest covering approximately 368,000 acres.

### **Horsehead Lake Prospect North Dakota**

During 1974 the Company acquired a 50% interest in 233,000 lease acres in Kidder County, North Dakota along the eastern edge of the Williston Basin. The geological setting in this area is similar to that of the northern part of the state and southeastern Saskatchewan where significant Mississippian and Ordovician oil fields have been discovered.







## CANADA

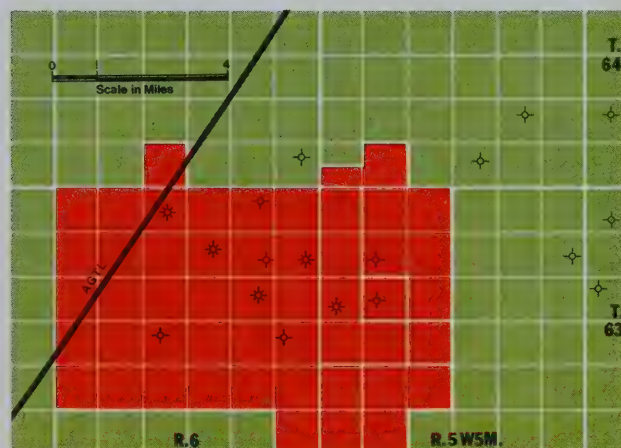
### Doris Creek

Sunlite and joint venturers have completed five Cretaceous gas wells at Doris Creek in west central Alberta. The producing area has been unitized and the preliminary work necessary for the construction of a gas plant and gathering system is now underway. The group has committed the Doris Creek gas reserves to TransCanada PipeLines at a contract price of 60¢/Mcf. We expect to have these reserves on stream by the latter part of January of next year. Any additional development drilling in the area will be contingent upon the deliverability of the existing wells.

### Edwand

Sunlite's interest varies from 5% to 15% on two permits and three leases held by our group in the Edwand area. We are attempting to earn additional acreage by way of a farmout with an immediate well commitment and a separate agreement involving a drilling option. The Company will therefore be participating in the drilling of three wells in this area with the possibility of a fourth test dependent upon the results of the option test.

The Sunlite group has begun surveying the pipeline right-of-way to connect our existing gas well to the gathering system and gas plant operated by Provident Resources immediately south of our development area. The price to be paid under our contract with Greater Winnipeg Gas Company is 60¢/Mcf.



### DORIS CREEK - FOLEY ALBERTA

- Sunlite Working Interest
- Gas Well
- Abandoned
- Pipeline

## Arctic

Sunlite has signed an agreement with Amoco Canada Petroleum Company Ltd. whereby all of the work commitments on 336,663 acres of permit acreage on Axel Heiberg Island will be carried at no cost to Sunlite until December, 1978. Amoco will thereby earn a 25% interest in the acreage with an option to earn an additional 25% interest by drilling a test well to a depth of 10,000 feet.

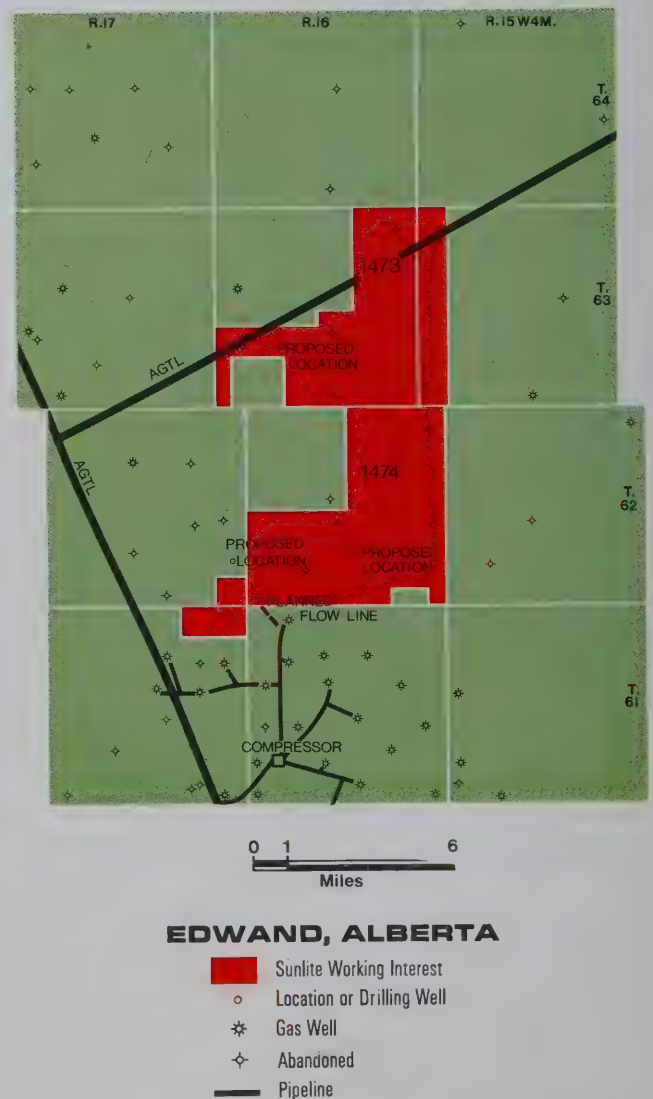
Sunlite presently holds 875,623 gross acres (654,530 net acres) situated mainly on Axel Heiberg Island and Ellesmere Island in the north-eastern Arctic.

During the period under review there were seventeen (17) wells drilled in the Arctic Islands region including gas discoveries at Drake Point on Melville Island and the south end of King Christian Island and an oil discovery at Bent Horn on Cameron Island. The Panarctic group also drilled an offshore test on the ocean ice to help delineate the Hecla gas area and as a check on the feasibility of drilling this type of well. There are six wells now drilling in this area of the Arctic.

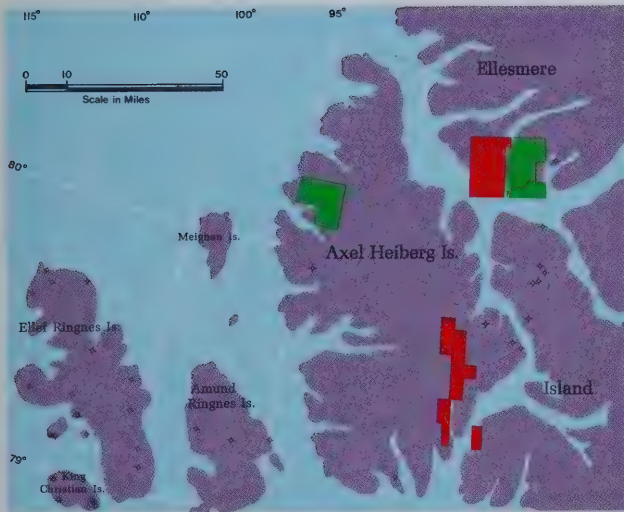
The attention of the oil and gas industry will continue to focus on frontier areas such as the Arctic, in an effort to meet the ever increasing demands for energy. The Company therefore plans to maintain its present land position in the Arctic.

## Beaufort Sea

During the past year drilling in the Mackenzie Delta/Beaufort Sea area has continued and based on the number of rigs located in the area, we do



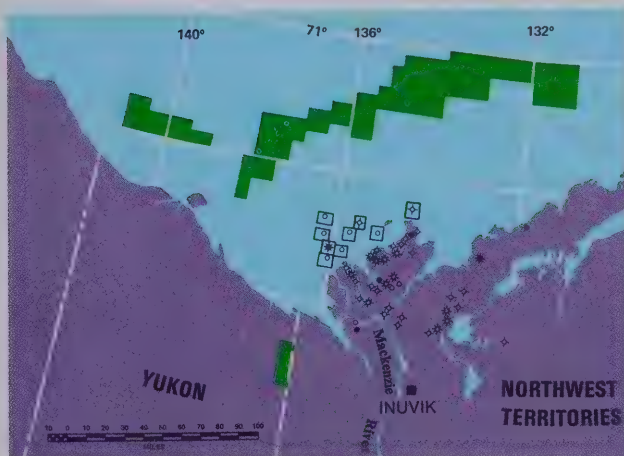




## ARCTIC ISLANDS

- Sunlite Working Interest
- Sunlite Royalty Interest
- Man-made Islands
- Location or Drilling Well
- ☆ Gas Well
- Oil Well
- ◇ Abandoned

## MACKENZIE DELTA



not expect to see any decline in activity. This will, of course, be influenced by industry's acceptance of the Federal government's budget presented in November of this year.

There are five more wells to be drilled this coming year on man-made ice island platforms in the Beaufort Sea. Sunlite holds a 1% gross overriding royalty on nearly three million acres in the offshore area.

### Eastcoast Canada/Baffin Island

Sunlite has a 20.6% interest in 8½ million acres offshore Baffin Island on Canada's east-coast. As previously reported Canada-Cities Service has a continuing option to keep the permits in good standing by fulfilling work commitments on a year to year basis and ultimately drilling one well for each one million acre block to earn a maximum 75% interest.

Cities Service has elected during 1974 to continue such option into 1975. During the past summer Cities Service has completed another geophysical program, the results of which should be available in the near future.





#### KHMER REPUBLIC

- Sunlight Working Interest
- Location or Drilling Well
- Gas Well
- Abandoned

#### KHMER REPUBLIC (CAMBODIA)

Sunlite acquired a 23½% working interest in a concession off the West Coast of the Khmer Republic in the Gulf of Thailand. This concession is carried under the name Marine Associates (Hong Kong) Ltd. and is operated by Canadian Reserve Oil and Gas Ltd. who has the obligation to conduct seismic activity on the permit at no cost to Sunlite. A number of interesting tests have been drilled in this area and at least two discoveries have been made in Cambodian waters. Part of this concession was in dispute with South Viet Nam but we believe that this has now been resolved.

#### OTHER FOREIGN VENTURES

The Company has continued to be active in areas of the world with exploration potential and is currently negotiating with several governments for licences.

We are reviewing seismic work performed during the last year in Gambia and Australia. While the results in Gambia are not encouraging, additional work appears justified on the Australian holdings and we are applying for an extension from that government.

The exploration licences for which the Company applied in the Sudan were granted to another group. We are currently appealing the decision.

For the Board of Directors:

*Edwin C. James*

EDWIN C. JAMES  
President  
November 25, 1974.



# financial statements

consolidated  
balance sheet

consolidated  
statement of  
earnings

consolidated  
statement of  
deficit

consolidated  
statement of  
changes in  
financial  
position

notes to  
consolidated  
financial  
statements

auditors' report



**sunlite  
oil  
company  
limited**



Sunlite Oil Company Limited  
And Subsidiary Companies

## consolidated balance sheet

As At September 30, 1974

### assets

#### CURRENT ASSETS

Cash  
Marketable securities, at cost (Market Value \$347,000)  
Accounts receivable (Notes 2 and 3)

#### PROMISSORY NOTES (Note 3)

#### FIXED ASSETS, at cost (Note 1)

Petroleum and natural gas leases and  
rights together with development  
and equipment thereon

Producing  
Accumulated depletion and depreciation

#### Non-producing

Leases  
Royalty rights  
Other

Other mineral rights, including development

#### OTHER ASSETS

	1974	1973 (Restated) Note 1
	<u>1974</u>	<u>1973</u>
Cash	\$2,550,226	\$1,290,842
Marketable securities, at cost (Market Value \$347,000)	482,702	305,750
Accounts receivable (Notes 2 and 3)	758,661	383,166
	<u>3,791,589</u>	<u>1,979,758</u>
PROMISSORY NOTES (Note 3)	<u>891,000</u>	<u>340,000</u>
FIXED ASSETS, at cost (Note 1)		
Petroleum and natural gas leases and rights together with development and equipment thereon		
Producing	2,021,311	1,304,914
Accumulated depletion and depreciation	289,302	179,103
	<u>1,732,009</u>	<u>1,125,811</u>
Non-producing		
Leases	1,550,966	2,675,433
Royalty rights	247,068	745,367
Other	1,052,146	1,045,418
	<u>4,582,189</u>	<u>5,592,029</u>
Other mineral rights, including development	176,945	156,135
	<u>4,759,134</u>	<u>5,748,164</u>
OTHER ASSETS	<u>99,957</u>	<u>49,617</u>
	<u>\$9,541,680</u>	<u>\$8,117,539</u>

## liabilities

## CURRENT LIABILITIES

## Accounts payable

### DEFERRED INCOME TAXES (Note 1)

shareholders' equity

## CAPITAL STOCK (Note 4)

Authorized

6,000,000 shares without nominal  
or par value

Issued

2,597,099 shares (1972—2,377,932 shares)

DEFICIT

Signed on behalf of the Board:

Edwin James

Director

*D. Sher.*

Director

1974	1973 (Restated) Note 1
\$ 281,060	\$ 527,616
894,735	988,935
8,443,705	7,261,431
(77,820)	(660,443)
8,365,885	6,600,988
\$9,541,680	\$8,117,539



Sunlite Oil Company Limited  
And Subsidiary Companies

## consolidated statement of earnings

For The Year Ended September 30, 1974

### REVENUE

Oil and gas sales  
Property sales  
Investments  
Other

### EXPENSE

Operating  
General and administrative  
Carrying charges on non-producing properties  
Dry hole costs  
Exploration  
Property surrenders and write-offs  
Depletion and depreciation

Earnings before income taxes and  
extraordinary item

Provision for income taxes

Current  
Deferred

Earnings before extraordinary item

Realization of tax benefit of prior period losses

NET EARNINGS

PER SHARE (Based upon weighted average  
number of shares outstanding)

Earnings before extraordinary item

Net earnings

1973  
(Restated)  
Note 1

1974

\$ 445,873

778,186

293,901

15,483

1,533,443

74,309

464,394

67,495

91,126

117,009

120,488

110,199

1,045,020

488,423

409,601

(94,200)

315,401

173,022

409,601

\$ 582,623

\$ .07

\$ .24

\$ 139,697

2,005,847

193,535

2,329

2,341,408

27,789

397,736

111,126

242,279

133,235

281,591

26,417

1,220,173

1,121,235

—

845,290

845,290

275,945

—

\$ 275,945

\$ .12

\$ .12

## consolidated statement of deficit

For The Year Ended September 30, 1974

RETAINED EARNINGS (DEFICIT) AT BEGINNING

OF YEAR, as previously reported

Adjustment resulting from retroactive adoption  
of income tax allocation accounting (Note 1)

DEFICIT AT BEGINNING OF YEAR, as restated

NET EARNINGS FOR THE YEAR

DEFICIT AT END OF YEAR

1973  
(Restated)  
Note 1

1974

\$ 328,492

988,935

(660,443)

582,623

\$ (77,820)

\$ (792,743)

143,645

(936,388)

275,945

\$ (660,443)



# consolidated statement of changes in financial position

For The Year Ended September 30, 1974

	1974	1973 (Restated) Note 1
<b>WORKING CAPITAL DERIVED FROM</b>		
Sale of fixed assets	\$2,434,321	\$ 46,709
Sale of lease trading inventory	—	2,025,000
Issue of capital stock (Note 4)	1,182,274	240,000
	<u>3,616,595</u>	<u>2,311,709</u>
 <b>WORKING CAPITAL APPLIED TO</b>		
Operations	19,912	576,604
Fixed Assets		
Drilling and development	106,651	384,250
Property acquisitions	431,524	1,344,498
Other	433,266	67,483
Increase in notes receivable	551,000	240,000
Other	15,855	19,640
	<u>1,558,208</u>	<u>2,632,475</u>
 <b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<b>2,058,387</b>	<b>(320,766)</b>
Working capital at beginning of year	<u>1,452,142</u>	<u>1,772,908</u>
<b>WORKING CAPITAL AT END OF YEAR</b>	<u><b>\$3,510,529</b></u>	<u><b>\$1,452,142</b></u>



# notes to consolidated financial statements

For The Year Ended September 30, 1974

## NOTE 1 ACCOUNTING POLICIES

### Principles of Consolidation

The consolidated financial statements include the accounts of the company's wholly-owned subsidiaries, Sunlite International Inc., Sunlite Oil Company (U.K.) Limited and Carter Royalty Corporation.

Amounts in foreign currency are converted to Canadian dollars on the following basis:

- (i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date.
- (ii) Fixed assets and related depreciation, at the rate of exchange at the date of acquisition.
- (iii) Other expenses and revenues, at the average rate of exchange for the year.

### Petroleum and Natural Gas Properties

Exploration expenses and carrying charges of both producing and non-producing properties are charged to earnings as incurred. The costs of drilling a productive well, including the costs of production equipment, are capitalized and amortized using the unit of production method. The cost of an unproductive well is charged to earnings when determined to be dry.

The acquisition costs of leases, royalty rights and other interests are capitalized. Costs are charged to earnings when properties are surrendered or considered to be of decreased value. The costs of producing leases, royalty rights and other interests are amortized using the unit of production method.

### Other Mineral Rights

The costs of acquisition, evaluation and development of mineral properties are capitalized. Such costs will be amortized using the unit of production method or, when properties are proven to be uneconomical, they are charged to earnings.

### Income Taxes

The companies follow the tax allocation method of accounting for income taxes under which the income tax provision is based upon earnings reported in the accounts.

In prior years the companies provided only for income taxes payable. This change in accounting had the effect of increasing the earnings for the current year by \$94,200 or 4¢ per share and decreasing the earnings for the previous year by \$845,290 or 35¢ per share. 1973 data have been restated to reflect this change in accounting.

## NOTE 2 ACCOUNTS RECEIVABLE

Included in accounts receivable at September 30, 1974, is an amount of \$190,000 U.S. representing the amount due on sale of mineral properties. During October, 1971, the company commenced legal action to collect this amount. Counsel for the company had advised that, in their opinion, the claim is valid.

## NOTE 3 PROMISSORY NOTES

	1974	1973
Due from officers and directors, non-interest bearing, due in 1975 and 1978	\$ 340,000	\$340,000
Non-interest bearing notes, receivable in seven equal annual installments to July 1, 1980 (less discount for 10% imputed interest)	830,600	—
	1,170,600	340,000
Current maturity included in accounts receivable	279,600	—
	<u>\$ 891,000</u>	<u>\$340,000</u>



#### NOTE 4 CAPITAL STOCK

Changes in capital stock during the year ended September 30, 1974 were as follows:

	<u>Number of Shares</u>	<u>Consideration</u>
Balance at September 30, 1973	2,377,932	\$7,261,431
Shares issued pursuant to subscription and option agreement, at Canadian dollar equivalent net of issue expenses	216,667	1,172,274
Shares issued to employee upon exercise of option	2,500	10,000
Balance at September 30, 1974	<u>2,597,099</u>	<u>\$8,443,705</u>

During the year, the company entered into an agreement to sell 564,881 common shares as follows:

May 8, 1974	216,667 shares at \$6.00 U.S. per share
May 8, 1975	185,714 shares at \$7.00 U.S. per share
May 8, 1976	162,500 shares at \$8.00 U.S. per share

Concurrently, the company granted to the purchaser of the shares an option to purchase a further 2,435,119 common shares exercisable at a price of \$10.00 U.S. per share to May 8, 1975. In addition, employees hold options to purchase 114,000 common shares, exercisable as to 4,000 shares in cumulative installments to 1977 at \$6.50 per share and as to 110,000 shares in cumulative installments to 1978 at \$6.00 per share.

#### NOTE 5 REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid during the current year to directors and senior officers totalled \$150,000.

#### NOTE 6 COMMITMENTS

As of September 30, 1974, the company had issued non-interest bearing demand notes aggregating approximately \$243,000 to governmental agencies for the performance of work obligations in respect of normal exploration activities. In addition, the company has committed to drill two wells in the British North Sea during 1975 for which its total estimated cost is \$762,000 and the company is contingently liable for a cash payment in the amount of \$150,000 pursuant to a joint venture agreement. The amount became due and payable on November 5, 1974.

#### NOTE 7 SUBSEQUENT EVENT

On November 18, 1974, certain changes in Canadian tax laws were proposed with retroactive effect to May 6, 1974. The companies have made full provision for the estimated tax effect.

## auditors' report

To the Shareholders  
Sunlite Oil Company Limited

We have examined the consolidated balance sheet of Sunlite Oil Company Limited and its subsidiaries as at September 30, 1974 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the collectibility of the account receivable referred to in Note 2 to the financial statements, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied after giving retroactive effect to the change in accounting for income taxes as explained in Note 1 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta  
November 25, 1974

THORNE, RIDDELL & CO.  
Chartered Accountants





1974 annual report  
on the  
financial  
and  
exploration  
activities  
of  
sunlite  
oil  
company  
limited